

# Economic trends

The global recession in the wake of the financial crisis gathered pace in the first quarter of this year. Most OECD countries now have four consecutive quarters of falling GDP behind them. Unemployment has risen at record speed, and in many industrial countries may pass 10 per cent in the course of 2009. The economy in high-growth countries like China and India is still expanding, but there, too, at a markedly slower pace. The contraction has taken hold despite a highly expansionary counter-cyclical policy expressed through both government budgets and monetary policy. Central bank policy rates have been cut to close to zero in most countries, and a strongly expansionary liquidity policy is being conducted. The banking industry still has major problems, and demand and output continue to be limited by restrictive lending practices. As a result of the cyclical downturn and the sharp fall in commodity prices in autumn 2008, inflation is now very low worldwide. However, commodity prices have risen considerably since bottoming out at around the turn of the year, and in consequence the risk of deflation is considered lower.

In the course of the spring there have been some signs that the downturn is beginning to abate. Higher commodity prices and strong developments in international stock exchanges indicate increased activity. This impression is underpinned by lower risk premiums in financial markets and greater optimism in sentiment indicators for both the business sector and households. However, we expect developments to remain weak for a while yet, and assume that the economies of Norway's trading partners will not bottom out before 2011. The greatest downside risk is perhaps the degree to which weak developments in the real economy create further problems for banks.

The Norwegian economy is strongly affected by the global recession, through both foreign trade and international capital markets. Our traditional export industries are severely impacted. Output of industrial commodities in particular has plunged some 30 per cent since summer 2008. As in other countries, there are also domestic explanatory factors behind the decline in Norway. These are linked largely to the high level of activity prior to the turnaround. A long period of strong growth in business sector investment and in residential construction led to a sharp rise in capital stocks. In isolation, this reduced the need for further investment and contributed to a sharper fall in investment demand when the downturn came. The same applies to the high growth of household consumption. The relatively weak household financial situation also caused an upswing in saving after the fall in house prices had reduced household wealth.

Thus the Norwegian economy is by no means shielded from the international downturn. –However, the decline in activity in Norway, albeit very pronounced, is substantially lower than in the great majority of other OECD countries. Seasonally adjusted figures from quarterly national accounts show that mainland GDP has fallen by 1.7 per cent through the last two quarters, and that unemployment is rising appreciably, albeit from a very low level. Developments point to a substantial cyclical downturn, in terms of both depth and duration.

A number of factors are curbing the Norwegian economic slump. The depreciation of the krone has contributed to higher profitability and competitiveness. However, this effect will wane if the krone exchange rate strengthens, as it is expected to do. We assume that petroleum investment will remain high, thereby helping to stabilise output in the Norwegian economy this year. Automatic stabilisers play a large part in the Norwegian economy, which also helps to dampen the impact of a downturn. The most important factor, however, is the shift to expansionary monetary and fiscal policy, and here the Norwegian authorities have had greater scope for manoeuvre than most other countries, as well as the will to use it.

The effects of the expansionary monetary and fiscal policy are far from exhausted; in fact, we will only really see their effects in the time ahead. We assume that this will lead to a reversal of the fall in GDP this year, but that we will not experience an economic recovery before 2011 – at about the same time as our trading partners.

# Cyclical developments in Norway

The Norwegian economy is in recession. The downturn started over a year ago, but gathered pace at the end of 2008 and in the first quarter of 2009. Seasonally adjusted preliminary quarterly national accounts (QNA) show that mainland GDP has shrunk by about an annualised 3.5 per cent in the last two quarters. Man-hours worked have fallen almost as much as mainland output, while employment has contracted somewhat less. Unemployment is increasing appreciably, but from a very low level. The slowdown in the Norwegian economy is now evident on a broad front and develop-

ments point towards a downturn that will be both deep and prolonged.

The turnaround in the Norwegian economy began with a slowdown in housing investment, which became pronounced as 2008 advanced. A decline in purchases of consumer durables followed and there was a clear downward shift in consumption in 2008. Nevertheless, the decline in consumption from the fourth quarter of 2008 to the first quarter of 2009 was moderate. The decrease in car purchases has levelled off, and second quarter figures indicate that the decline may have come

Tabell 1. **Macroeconomic indicators 2007-2009. Growth from previous period unless otherwise noted. Per cent**

	2007*	2008*	Seasonally adjusted			
			08:2	08:3	08:4	09:1
Demand and output						
Consumption in households etc.	6.0	1.4	-0.5	-1.0	-0.6	-0.2
General government consumption	3.4	3.8	0.9	1.2	1.2	1.6
Gross fixed investment	8.4	3.9	-0.4	2.0	-0.1	-6.9
Mainland Norway	9.3	2.4	0.4	1.7	-2.1	-7.7
Extraction and transport via pipelines	5.5	6.6	-2.2	3.9	5.0	2.0
Final domestic demand from Mainland Norway <sup>1</sup>	6.0	2.2	0.0	0.1	-0.4	-1.2
Exports	2.5	1.4	-0.4	-1.4	2.2	-4.7
Crude oil and natural gas	-2.6	-1.5	-1.8	-4.0	6.8	-3.6
Traditional goods	8.7	4.8	0.6	0.1	-3.9	-7.3
Imports	7.5	4.4	-1.3	1.0	-3.8	-5.9
Traditional goods	6.7	2.7	-2.1	-0.8	-5.0	-3.6
Gross domestic product	3.1	2.1	0.1	-0.8	0.8	-0.4
Mainland Norway	6.1	2.6	0.3	0.1	-0.8	-1.0
Labour market						
Man-hours worked	4.4	3.4	0.6	0.4	-0.5	-0.8
Employed persons	4.1	3.1	0.7	0.5	-0.3	-0.5
Labour force <sup>2</sup>	2.5	3.4	0.4	0.2	0.4	0.1
Unemployment rate, level <sup>2</sup>	2.5	2.6	2.4	2.4	2.8	3.1
Prices and wages						
Wages per standard man-year <sup>3</sup>	5.6	5.8	5.7	6.1	6.1	5.4
Consumer price index (CPI) <sup>3</sup>	0.8	3.8	3.2	4.7	3.6	2.4
CPI adjusted for tax changes and excluding energy products (CPI-ATE) <sup>3</sup>	1.4	2.6	2.4	2.9	2.9	2.8
Export prices, traditional goods	2.5	2.3	3.0	6.8	-4.6	-6.4
Import prices, traditional goods	3.7	3.2	1.8	2.3	-1.3	-1.0
Balance of payment						
Current balance, bill. NOK	362.3	466.2	122.7	120.6	123.1	..
Memorandum items (unadjusted level)						
Money market rate (3 month NIBOR)	5.0	6.2	6.4	6.6	6.0	3.5
Lending rate, banks <sup>4</sup>	5.7	7.3	7.2	7.6	7.5	6.3
Crude oil price NOK <sup>5</sup>	423.4	526.8	616.8	609.5	375.2	305.7
Importweighted krone exchange rate, 44 countries, 1995=100	90.8	90.8	87.3	89.1	98.4	96.1
NOK per euro	8.02	8.22	7.94	8.06	8.92	8.95

<sup>1</sup> Consumption in households and non-profit organizations + general government consumption + gross fixed capital formation in Mainland Norway.

<sup>2</sup> According to Statistics Norway's labour force survey (LFS).

<sup>3</sup> Percentage change from the same period the previous year.

<sup>4</sup> Period averages.

<sup>5</sup> Average spot price, Brent Blend.

Source: Statistics Norway and Norges Bank.

to a halt. Low interest rates and more normal conditions in the housing and credit market may now curtail the fall in consumption.

Mainland business investment also moved on a weak trend in 2008, following a very strong upswing through 2007. This investment declined markedly in the first quarter of 2009, resulting in a sharper fall in the level of activity, and the decline in output continued. In contrast, petroleum investment continued to rise through 2008 and into 2009, thereby slowing the downturn in the Norwegian economy. The same applies to general government investment. As a result of the major shift in fiscal policy, both consumption and gross general government spending will increase strongly in the period ahead and contribute to reversing the fall in GDP.

Exports of traditional goods remained buoyant despite weak global developments, and the downward trend for exports first became apparent in late 2008 and early 2009. Exports of services remained fairly stable for several quarters, but fell appreciably in the first quarter of this year. Imports dropped sharply from the beginning of 2008, reflecting weaker growth in consumption and investment.

Inflation in Norway rose appreciably from 2007 to 2008. In particular, a sharp rise in energy prices led to consumer price inflation, measured by the CPI, escalating from 0.8 to 3.8 per cent. The rise in energy prices has fed through to other prices. The prolonged economic upturn resulted in a relatively sharp rise in costs and contributed to higher inflation excluding energy products. The CPI-ATE has increased slightly more than the inflation target since the summer of 2008. The sharp depreciation of the krone through autumn last year is expected to keep inflation at around the target level for a while to come. An expected strengthening of the krone exchange rate, coupled with the general effects of the economic downturn and lower energy prices, will probably lead to lower inflation towards the end of this year.

We are currently experiencing the most severe recession since World War II. The Norwegian economy is strongly affected through both foreign trade and international capital markets. Our traditional export industries are severely affected. Nevertheless, a number of factors are countering the effect of the global downturn on the Norwegian economy. The substantial depreciation of the krone has contributed to higher profitability and competitiveness. However, this effect will wane if the krone exchange rate strengthens going forward, as we expect it to do. Automatic fiscal stabilisers also dampen the effects of a downturn. However, without the shift to an expansionary monetary and fiscal policy, the Norwegian economy would have experienced a considerably higher increase in unemployment and a more pronounced decline in mainland GDP in 2009 than is now expected. The high petroleum investment will also help to stabilise the Norwegian economy this

year. Although the oil price has fallen considerably, the production of petroleum products will not be affected by the cyclical situation in the short term. This will contribute to a stabilisation of the Norwegian economy compared with countries in which labour-intensive manufacturing industries dominate the export sector. Unemployment is now expected to rise to the same level as during the cyclical downturn five years ago. Because of the extensive inward labour migration, however, there is greater uncertainty than previously surrounding developments in unemployment.

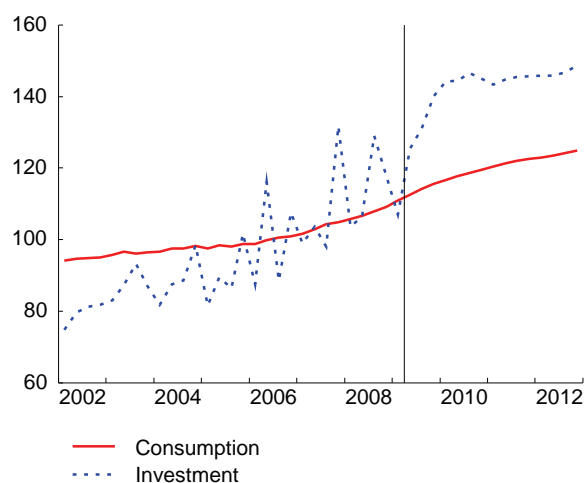
Inflation will remain high for some quarters to come, but is expected to be low in 2010 unless the weak krone exchange rate persists. Given a far weaker labour market and poorer profitability for internationally exposed industries, wage growth can be expected to decline appreciably in the period ahead. If the global economic downturn becomes as deep as we now anticipate, and moreover lasts through 2010, there is no reason to expect any appreciable rise in commodity prices before the end of 2010. The profitability of Norwegian export companies, and accordingly wage growth, is therefore likely to be moderate in 2010 and 2011 as well. This will also exert downward pressure on consumer price inflation going forward.

### **Expansionary fiscal policy**

Growth in public purchases of goods and services was approximately 4 per cent in 2008, while real tax rates did not change substantially. Thus fiscal policy imparted positive growth impulses to the Norwegian economy last year. Real growth in transfers to households has been modest in recent years. The budget balance improved considerably during the expansion, and the non-oil government accounts showed only a moderate deficit in 2008.

The budget for 2009, which the Storting adopted at the end of 2008, was more expansionary than in recent years because of the anticipated slowing of growth in the period ahead. Budgetary impetus (measured as change in structural, non-oil deficit as a share of trend mainland GDP) was estimated by the Ministry of Finance at 0.7 per cent. However, fiscal policy for 2009 was made substantially more expansionary in the wake of the presentation to the Storting of Proposition no. 37 (2008-2009) *Changes in the Government Budget for 2009 with measures to secure employment* as a result of the considerably weaker outlook for the Norwegian economy. In the report, the Government submitted proposals for increased allocations to both consumption and investment in addition to revisions of some tax programmes. The Storting deliberations did not result in a change in the general outline of the Government proposals. In the Revised National Budget 2009 (RNB), the Government now estimates that in isolation the package of measures is equivalent to a fiscal stimulus of 1.7 per cent of mainland GDP. When we include the measures in the RNB, the overall fiscal stimulus from 2008 to 2009 is estimated at 3 per cent, the strongest

Figure 1. **General government. Seasonally adjusted volume indices. 2006=100**



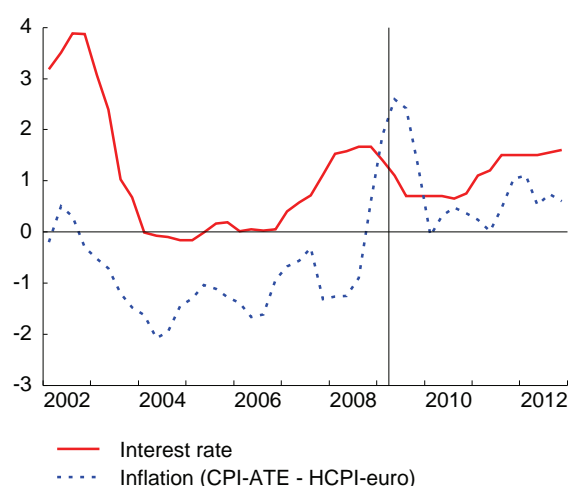
Source: Statistics Norway.

since the 1970s. In addition to large interest rate cuts there have also been two stimulus packages targeting the banking and credit sector. The second one has not yet had any appreciable effect because it takes time to establish the institutional system needed to implement the measures. Thus the overall economic policy shift is unusually large.

Our projections for fiscal policy in 2009 are based on the RNB figures. We therefore do not anticipate any substantial changes in fiscal policy for 2009 other than those already submitted to the Storting. According to the RNB, the projections for 2009 imply a structural non-oil budget deficit of approximately NOK 130 billion. This is almost NOK 39 billion higher than the figure following from the expected real return on the Government Pension Fund – Global at the beginning of 2009, equivalent to approximately 2 per cent of mainland GDP. The growth in general government spending on goods and services is now projected at just over 6.5 per cent in 2009, compared with 4 per cent the previous year. Growth in general government investment will be decidedly higher, and is projected at over 12 per cent in 2009.

With prospects of continued weak economic growth in Norway, there is reason to expect that an expansionary fiscal policy will be maintained and relaxed somewhat more in 2010, but far less fiscal stimulus is expected than in 2009. We assume that there will be a shift in the composition of public sector expenditure towards higher investment growth and somewhat less growth in spending on consumption. Planning of investment activities is more time-consuming, and these activities therefore cannot be implemented as rapidly as maintenance activities. The projections for 2010 are also influenced by the fact that from autumn 2009 to the end of 2011 the Norwegian Armed Forces are to purchase new helicopters and transport aircraft for a total of almost NOK 10 billion. The Armed Forces will buy their

Figure 2. **Interest rate and inflation differential between NOK and the euro. Percentage points**



Source: Norges Bank and Statistics Norway.

last frigate in 2010. This accounts for the fall in public sector investment from 2010 to 2011, but non-military investment is expected to increase somewhat into 2011. We assume that growth in general government investment will be as much as 14.5 per cent next year, while growth in consumption will be slightly over 4 per cent.

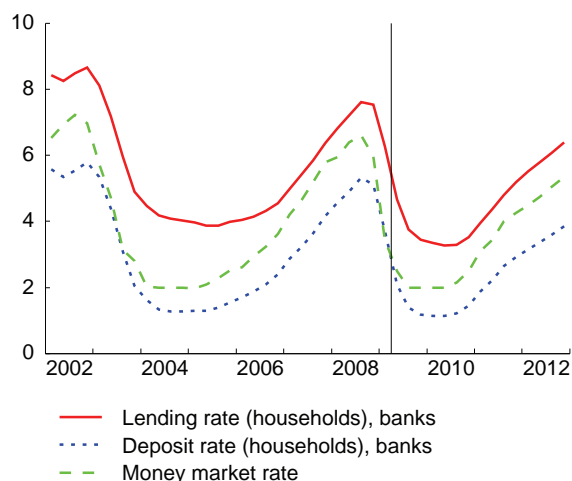
The expansionary fiscal policy is assumed to be continued in 2011, but not loosened further. This implies that consumer spending will grow more in line with assumed trend growth in the Norwegian economy and that the investment level will remain high. Our assumptions are based on direct and indirect taxes adjusted for inflation throughout the period. Our projections for 2011 imply that the structural, non-oil government budget deficit will not increase further in relation to the 4 per cent rule.

It is assumed that fiscal policy will be tightened somewhat in 2012 when economic growth picks up again. The tightening is expected to take the form of slower consumer spending growth and an unchanged investment level. Since unemployment is expected to decline from 2011, it is reasonable to assume that the labour-intensive segments, in particular, of public sector purchases of goods and services will grow more slowly to allow for production growth in the private sector following several years of strong growth in employment in public sector production of services.

### Low interest rates ahead

Norges Bank's setting of interest rates is aimed at stabilising inflation at 2.5 per cent while promoting stable developments in output and employment. Inflation measured by the 12-month change in the consumer price index adjusted for tax changes and excluding energy products (CPI-ATE) was 2.7 per cent in April. The crisis in financial markets worldwide and sombre economic outlook have prompted Norges Bank to reduce the key policy rate sharply. We assume that it will

Figure 3. Norwegian interest rates. Per cent



Source: Norges Bank and Statistics Norway.

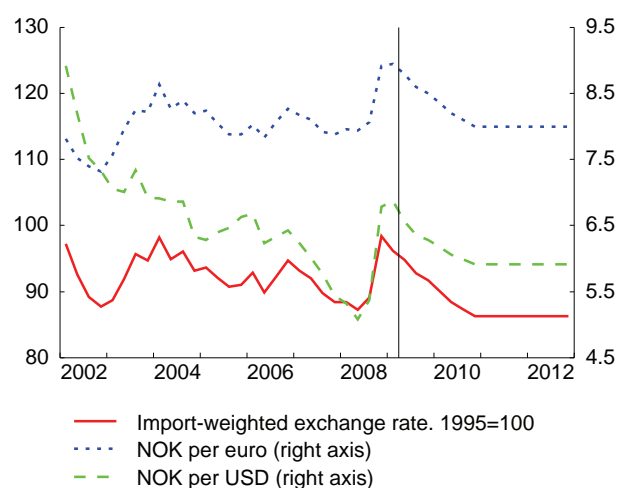
be raised again to some degree in 2010, but gradually, so that interest rates will be relatively low throughout the projection period.

As a result of the financial crisis, the differential between money market rates and the key policy rate has widened. Before the financial crisis, money market rates largely shadowed the policy rate with a premium of 0.25 percentage point. Since summer 2007, however, the premium has been substantially larger. The differential between money market rates and the key rate increased to 2 percentage points in late September/early October 2008, but has since narrowed, and was  $\frac{3}{4}$  of a percentage point at the end of May. Since the monetary policy meeting in May, the key rate has been 1.5 per cent. Norges Bank has thus reduced the key policy rate by a total of 4.25 percentage points since October 2008. From the beginning of October to late May this year, money market rates have fallen from just under 8 per cent to about 2.3 per cent.

Norges Bank has also taken steps to strengthen banks' liquidity. The volume of Norges Bank's fixed rate loans (F-loans) has increased, the maturity of these loans has been extended and the collateral banks are required to provide in order to qualify for the loans has been reduced. The Storting has additionally approved loans of government paper to banks, against collateral in bonds, for up to NOK 350 billion. By early May, government paper equivalent to over NOK 110 billion had been auctioned to banks under the programme.

In February, the Government proposed new measures with a framework of NOK 100 billion to facilitate corporate and household access to loans. Half of the package is to be used to bolster banks' Tier 1 capital and enable them to lend more money. The other half is to be used to increase the liquidity in the bond market through government purchases of corporate bonds. Since mid-March, the Government Bond Fund has boosted

Figure 4. Exchange rates



Source: Norges Bank.

liquidity and the supply of capital to the bond market by buying bonds issued by Norwegian enterprises.

The Norwegian krone depreciated strongly against the US dollar and the euro through the second half of 2008. Measured by the import-weighted krone exchange rate, where weights are based on the composition of Norwegian imports, the krone depreciated by about 15 per cent from June to December 2008. Since year-end, the krone has regained about half of its lost value against the US dollar and the euro and the import-weighted krone exchange rate strengthened by about 8.5 per cent from the end of 2008 to 25 May.

Domestic credit growth, measured by 12-month growth in private and municipal sector debt (C2) was 8.8 per cent in March 2009. Credit growth in non-financial enterprises fell from just over 20 per cent in July 2008 to 11.2 per cent in March this year. Household debt increased by 6.7 per cent from March 2008 to March 2009. This is the lowest year-on-year growth since the turn of the century, and is partly attributable to slower growth in activity in the Norwegian economy and lower turnover in the housing market.

Providing that the premium on the key rate narrows further, we do not believe that Norges Bank will reduce the interest rate further in the current economic slump. However the money market rate will drop further, and we expect it to be 2.0 per cent in the second half of 2009. This is very close to the projection in the last *Monetary Policy Report*, and slightly lower than market expectations. We expect that the key rate will be raised again from summer 2010 as the business cycle reverses and household consumption picks up again. However, increases will be gradual and the premium will be reduced further, so that money market rates will remain relatively low throughout the period. In 2010, money market rates will lie at around an annualised 2.2



Table 2. **Household real disposable income. Percentage growth**

	2004	2005	2006	2007	2008	2009	2010	2011	2012
Total	3.4	7.5	-6.5	5.9	2.9	2.5	3.6	2.9	2.8
Exclusive dividends	2.7	3.5	4.2	4.8	3.1	3.3	3.4	2.4	1.8

Source: Statistics Norway.

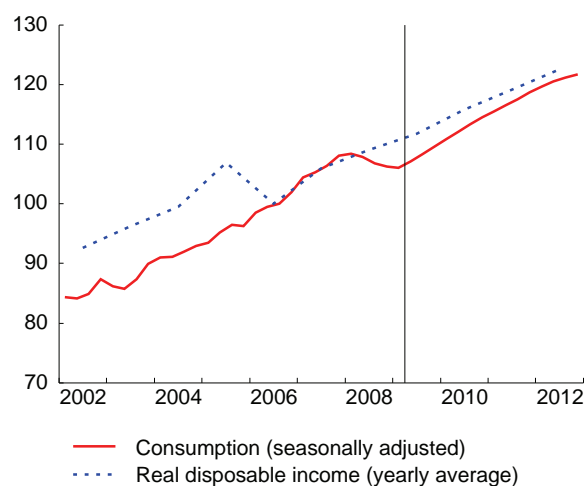
per cent, but are expected to rise to 3.7 per cent in 2011 and further to 4.9 per cent in 2012.

Because we are assuming a lower interest rate increase in the euro area than in Norway, we expect the appreciation of the krone against the euro to continue. In the projection scenario, the price of a euro falls to 8.00 in the course of 2010. At the same time we assume approximately unchanged exchange rates between EUR, USD, GBP and SEK in the period ahead. This means that the krone will strengthen against these currencies to the same degree as against the euro.

On an annual basis, the depreciation of the krone last autumn will outweigh the strengthening we expect this year. The krone will therefore weaken from 2008 to 2009 as an annual average. The weakening against the euro from 2008 to 2009 is projected to be just below 6 per cent, while the import-weighted krone exchange rate will weaken by just less than 4 per cent. According to projections, in 2010 and 2011 the krone will appreciate by about 6.5 per cent and 2 per cent respectively against the import-weighted currency basket.

### Consumption picking up again

According to preliminary QNA figures, consumption for households and non-profit organisations edged down by 0.2 per cent in the first quarter of 2009, seasonally adjusted and compared with the previous quarter. Consumption has thus fallen for four consecutive quarters after four and a half years of strong growth. However, the decline in the last quarter was far less than in the three previous quarters, indicating that the cyclical downturn is in the process of levelling off. The sharp fall in car purchases since year-end 2007/2008 – which reflects high interest rates; an unfavourable outlook for the economy generally and uncertainty concerning the buyers' own future income – did in fact continue through the first three months of the year, and contributed to a 0.8 per cent decline in goods consumption. Household consumption of other goods, excluding car purchases, rose by 0.6 per cent. The product groups clothing and footwear, pharmaceuticals, optical instruments, orthopaedic appliances, photographic, IT and leisure equipment contributed substantially to the first quarter growth shown by this consumption sector. Services consumption rose by 0.8 per cent in the same period. Following a decline through the last three quarters of 2008, purchases of hotel and restaurant services climbed 1.1 per cent in the first quarter of this year. The fact that the cyclical downturn no longer appears to be affecting services consumption to any real extent strengthens the belief that household consumption may pick up again. So far in the second quarter of 2009,

Figure 5. **Income and consumption in households. Volume indices. 2006=100**

Source: Statistics Norway.

figures for registered new cars indicate that the decline since early 2008 has now come to a halt.

Growth in household real disposable income is expected to be around 2.5 per cent this year. Weaker growth in household wage income is contributing substantially to dampening income growth, while very much lower interest rates and reduced consumer price inflation are countering this effect. Given moderate income growth and some household financial consolidation – which will probably continue to take place because of uncertainty concerning own income and lower house prices – we now expect consumption to increase by an annualised 0.4 per cent in 2009. Consumption growth has not been so weak since 1990. In the period 2010 to 2012, precautionary household saving will probably decline in pace with a gradually more favourable economic situation, a brighter outlook and rising house prices. Real disposable income is expected to increase by an annual average of just over 3 per cent in the three years following 2009, while consumption will increase by almost one percentage point more in the same period. At the same time, real interest rates after tax will remain at a low level of around 1.5 per cent. This will stimulate consumption. Although the outlook for households improves after 2009, our projections imply weaker consumption and income growth compared with the growth through the last expansion.

The income and consumption developments on which we base our projections imply that the saving ratio will rise from just over 2 per cent in 2008 to over 4.5 per cent this year, and then fall back to 3.7 per cent in 2010

## The “house price crash” – what effects may it have on the Norwegian economy?

Turnover in the housing market decreased markedly through the summer and autumn of 2008. House prices fell by over 10 per cent from the second to the fourth quarter of last year and were expected by many to fall further. However, the tendency reversed in early 2009. According to ECON's house price index, prices have been increasing gradually since December. This is partly attributable to the sharply reduced key rate and to the government fiscal package. In our projections we assume that house prices will move relatively little in 2009 and 2010, before rallying in 2011. Despite developments in recent months, a number of economists expect a substantial fall in house prices.

What will the consequences be if the housing market should develop differently from our projections? We perform two calculations: a low-price and a high-price scenario. In the calculation with low house prices, we assume a fall in house prices from and including the third quarter of 2009 that continues through 2010. The price fall from spring 2008 to end-2010 will then be 27 per cent. Prices will subsequently rebound in 2011 and 2012.

We use the macroeconomic model KVARTS in our projections. However, our house price forecast is lower than that generated by the model alone. In KVARTS there is no direct connection between unemployment and house prices. Our projections assume that increased uncertainty concerning developments in own income – as indicated by the increase in unemployment – contributes to lowering house prices compared with those generated by the model. In the high-price scenario we allow KVARTS to calculate the rise in house prices. It forecasts growth that is approximately twice as high as in our projection. In 2012 house prices will be almost 25 per cent higher than the level in 2008. The calculations have been carried out using model-based interest and exchange rates.

Lower house prices initially affect household consumption and housing investment. Consumption is affected by the fact that lower house prices reduce households' housing wealth. This may make it more difficult to raise a loan with collateral in the dwelling. Households may also wish to increase their saving in order to re-establish a certain proportion between debt and assets. Housing investment will be negatively impacted by lower house prices because new dwellings have become relatively more expensive than resale homes. The result is lower demand for new dwellings, and hence housing starts.

Lower consumption and housing investment pushes down production. Lower production reduces employment, and unemploy-

ment rises. The effects will be dampened by the interest rate cuts that Norges Bank will normally make to stabilise output. Lower interest rates increase business sector profitability per se, and will also boost household demand. The krone exchange rate will also respond to interest rate movements. A weaker krone as a result of a lower interest rate differential against other currencies makes the Norwegian export sector more competitive. A weaker krone will also increase the rise in prices for imported goods, and push up consumer price inflation. This effect is stronger than the weaker inflationary impulses from reduced domestic demand, so that on balance the consumer price index will be slightly higher than it would have been without the fall in house prices.

A house price crash will lead to a substantial fall in consumption and investment. The effects on the economy will be amplified by lower output and income. A weaker krone improves the competitive edge of Norwegian companies competing at home and abroad. The service industries and building and construction will experience a substantial fall in production. Overall, mainland GDP is 1¾ per cent lower in 2011 and 2012 than in our projections. Unemployment is 0.6 per cent higher.

Model-based house prices differ less from our projections, and the effects will therefore be smaller. The mechanisms are the same as those outlined above, but with the opposite sign. Higher house prices will contribute to housing investment and consumption picking up. This increases domestic demand, leading to some reduction in unemployment. Higher interest rates and a stronger exchange rate contribute to somewhat lower exports and inflation.

Table 1. **Lower house prices. Deviation from baseline scenario in per cent unless otherwise indicated**

	2010	2011	2012
House prices	-17.3	-26.6	-23.3
Household consumption	-2.2	-3.8	-3.1
Mainland investment	-1.2	-4.8	-7.9
Housing investment	-3.7	-15.5	-25.2
Exports	0.1	0.2	0.3
Mainland GDP	-0.8	-1.7	-1.8
Unemployment rate, percentage points	0.3	0.5	0.6
Wages	-0.2	-0.5	-0.7
CPI	0	0.1	0.2
Interest rate, percentage points	-0.1	-0.3	-0.5
Exchange rate	0.4	1.4	2.2
Saving ratio, percentage points	1.8	3.1	2.2

Table 2. **Higher house prices. Deviation from baseline scenario in per cent unless otherwise indicated**

	2010	2011	2012
House prices	4.9	9.3	13.2
Household consumption	0.6	1.1	1.6
Mainland investment	0.4	1.4	2.9
Housing investment	1.3	4.6	9.1
Exports	0.0	-0.1	-0.1
Mainland GDP	0.2	0.5	0.8
Unemployment rate, percentage points	-0.1	-0.2	-0.3
Wages	0.0	0.1	0.3
CPI	0.0	0.0	-0.1
Interest rate, percentage points	0.0	0.1	0.2
Exchange rate	-0.1	-0.4	-0.8
Saving ratio, percentage points	-0.5	-0.9	-1.2

House prices. Price indices. 2008=100

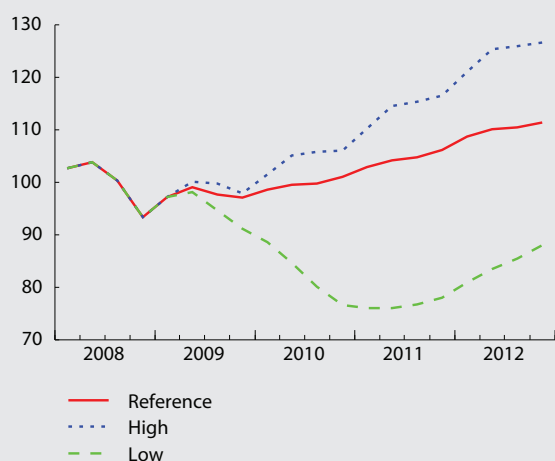


Figure 6. **Residential market. Left axis adj. indices. 2006=100. Right axis per cent**



Source: Statistics Norway.

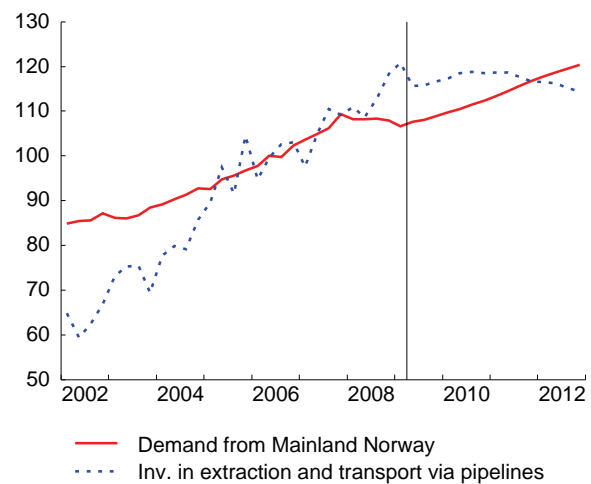
and around 2.5 per cent in 2011 and 2012. The higher saving level this year and continued falling housing investment are paralleled by positive developments in household net lending. Measured in current prices, household net lending will increase from a negative level of around NOK 40 billion in 2008 to almost zero in 2009. In the last years of the projection period, net lending will fall again by about NOK 35 billion, concurrently with a certain decline in saving and a rise in housing investment.

### Continued fall in housing investment

The strong growth in housing investment from end-2003, driven by high income growth, low real interest rates and a sharp rise in house prices, came to a halt in the second quarter of 2007. Housing investment fell through 2008, most appreciably towards the end of the year. According to preliminary national accounts figures, the fall continued in the first quarter of 2009 with a seasonally adjusted reduction of 2.6 per cent on the previous quarter. Housing start statistics, the main basis for the QNA figures, show that the downward trend since the peak in the second quarter of 2007 continued in the first three months of this year. Housing investment is therefore expected to continue falling through 2009 and into 2010. However, prospects of a more favourable economic situation and relatively low real interest rates imply that housing investment will pick up again from summer 2010 and for the remainder of the projection period.

House prices rose strongly in the period from 2003 to 2007, by almost 12 per cent as an annual average, according to Statistics Norway's (SN) new house price index for all types of dwellings. The house price level reached a temporary high in the second quarter of 2007, and then fell moderately until the end of the same year before rising to a new peak in the second quarter of 2008. House prices then fell sharply through the remainder of last year. Prices for detached houses,

Figure 7. **Domestic demand. Seasonally adjusted volume indices. 2006=100**



Source: Statistics Norway.

small houses and flats all dropped by over 10 per cent in the period from the second to the fourth quarter of 2008. The annualised average fall in house prices as a whole was 1.1 per cent in 2008. From the fourth quarter of 2008 to the first quarter of this year, house prices rebounded by 4.2 per cent. Whereas prices for detached houses (which account for almost 60 per cent of dwellings) rose by 3.4 per cent, prices for small houses and flats (which both account for just over 20 per cent of dwellings) rose by 4.4 per cent and 6.1 per cent, respectively. We now expect that house prices overall will continue to rise somewhat in the second quarter, and then fall back moderately until a little way into 2010. The outcome would be an annualised fall in house prices of just over 2 per cent from 2008 to 2009. House prices will rise again through the final years of the projection period, albeit at a moderate rate, in pace with an improved economic situation.

### High level of activity in oil and gas exploration

Petroleum investment is still on the rise. According to the preliminary, seasonally adjusted QNA figures, petroleum investment increased by 2.0 per cent from the fourth quarter of 2008 to the first quarter of 2009. Total investment was pushed up by exploration activity in particular, but also by production drilling. The QNA figures indicate an almost 25 per cent increase in investment in drilling and exploration for oil and in oil and gas pipelines from the first quarter of 2008 to the first quarter of 2009. Investment in oil production platforms, drilling rigs and modules dropped by 10.2 per cent through the same period, thereby pushing down overall petroleum investment. On balance, petroleum investment increased by 9.6 per cent from the first quarter of 2008 to the first quarter of 2009. The QNA figures for total petroleum investment in the fourth quarter have been revised. As a result, the annualised growth rate from 2007 to 2008 has been amended from 7.1 to 6.6 per cent.



Table 3. **Main economic indicators 2007-2011. Accounts and forecasts. Percentage change from previous year unless otherwise noted**

	Accounts 2008	Forecasts									
		2009			2010			2011		2012	
		SN	MoF	NB	SN	MoF	NB	SN	NB	SN	NB
<b>Demand and output</b>											
Consumption in households etc.	1.4	0.4	0.0	0	4.6	..	5 1/4	3.9	4 3/4	3.2	3 1/4
General government consumption	3.8	5.7	5.7	5 1/4	4.2	..	4	3.0	..	1.7	..
Gross fixed investment	3.9	-8.6	-6.3	..	-2.1	..	..	1.9	..	6.2	..
Extraction and transport via pipelines <sup>1</sup>	6.6	2.4	5.5	2 1/2	3.2	..	-7 1/2	-0.3	0	-2.2	5
Mainland Norway	2.4	-10.5	-9.3	-13 1/2	-3.6	..	-5	4.2	..	7.0	..
Industries	6.8	-17.4	-16.1	..	-12.6	..	..	2.6	..	9.1	..
Housing	-8.1	-13.9	-12.0	..	-3.9	..	..	12.6	..	11.0	..
General government	5.8	12.1	12.3	..	14.5	..	..	-0.2	..	0.2	..
Demand from Mainland Norway <sup>2</sup>	2.2	-0.4	-0.4	-1 1/4	3.0	..	3	3.7	5	3.4	3 1/2
Stockbuilding <sup>3</sup>	0.1	-0.2	..	..	0.0	..	..	0.0	..	0.0	..
Exports	1.4	-5.1	-5.3	..	-1.6	..	..	0.9	..	1.4	..
Crude oil and natural gas	-1.5	-2.0	-4.5	..	-0.2	..	..	-1.1	..	-1.6	..
Traditional goods <sup>4</sup>	4.8	-10.2	-7.3	-7 1/4	-2.2	..	- 1/4	3.5	..	5.2	..
Imports	4.4	-6.1	-2.4	-5 1/4	3.6	..	1/4	4.2	..	4.8	..
Traditional goods	2.7	-7.8	-4.0	..	2.6	..	..	5.6	..	5.4	..
Gross domestic product	2.1	-1.2	-1.9	-1 1/4	0.7	..	2 1/4	1.9	3 1/2	2.1	2 3/4
Mainland Norway	2.6	-1.4	-1.0	-1	1.0	3/4	2 1/2	2.6	3 3/4	3.0	3
<b>Labour market</b>											
Employed persons	3.1	-0.8	-1.0	-1 1/2	-0.5	-1 1/2	-1/4	0.6	1	1.5	3/4
Unemployment rate (level)	2.6	3.8	3 3/4	4 1/4	4.6	4 3/4	4 3/4	4.6	4 1/4	4.1	3 3/4
<b>Prices and wages</b>											
Wages per standard man-year	5.8	3.8	4.0	4	3.5	..	3 3/4	3.5	4 1/4	4.7	4 3/4
Consumer price index (CPI)	3.8	1.7	1.8	2	1.1	..	2	1.7	2 1/4	2.5	2 1/2
CPI-ATE <sup>5</sup>	2.6	2.2	2.4	2 1/2	1.0	..	2	1.5	2 1/4	2.4	2 1/2
Export prices, traditional goods	2.3	-6.3	-3.9	..	-2.1	..	..	3.8	..	5.1	..
Import prices, traditional goods	3.2	-2.2	0.2	..	-2.8	..	..	1.6	..	2.7	..
Housing prices	-1.1	-2.3	..	..	2.0	..	..	4.8	..	5.4	..
<b>Balance of payment</b>											
Current balance (bill. NOK)	466.2	297.7	231	..	274.9	..	..	311.9	..	336.8	..
Current balance (per cent of GDP)	18.3	12.3	9.8	..	11.2	..	..	12.1	..	12.3	..
<b>Memorandum items:</b>											
Household savings ratio (level)	2.0	4.6	5 1/4	..	3.7	..	..	2.8	..	2.5	..
Money market rate (level)	6.2	2.5	3.0	2.6	2.2	2.8	2.1	3.7	3.2	4.9	4.1
Lending rate, banks (level) <sup>6</sup>	7.3	4.5	..	..	3.4	..	..	4.6	..	5.9	..
Crude oil price NOK (level) <sup>7</sup>	527	350	350	..	388	402	..	436	..	470	..
Export markets indicator	0.8	-11.2	..	..	-1.7	..	..	3.3	..	6.1	..
Importweighted krone exchange rate (44 countries) <sup>8</sup>	0.0	3.8	4.2	4 1/2	-6.6	..	0	-2.0	-1	0.0	0

<sup>1</sup> Forecasts from Ministry of Finance incl. service activities incidental to extraction.<sup>2</sup> Consumption in households and non-profit organizations + general government consumption + gross fixed capital formation in Mainland Norway.<sup>3</sup> Change in stockbuilding. Per cent of GDP.<sup>4</sup> Norges Bank estimates traditional exports, which also includes some services.<sup>5</sup> CPI adjusted for tax changes and excluding energy products (CPI-ATE).<sup>6</sup> Yearly average.<sup>7</sup> Average spot price, Brent Blend.<sup>8</sup> Increasing index implies depreciation. Ministry of Finance forecasts trade-weighted exchange rate.

Source: Statistics Norway (SN), Ministry of Finance, St.meld. nr.2 (2008-2009), (MoF), Norges Bank, Pengepolitisk rapport 1/2009 (NB).

Oil prices moved on a positive trend in the course of the spring, reflecting relatively high exploration activity in the current year. There have also been some promising finds in 2009, and high discovery rates will probably contribute to maintaining interest in exploration. Investment in production drilling and exploration is therefore expected to increase further in 2009. The availability of rigs is expected to improve slightly from 2010. Costs for input factors are also expected to fall further, which will make it possible to maintain the investment volume at a high level despite lower oil prices than in 2007 and 2008.

Investment in petroleum production platforms and drilling rigs is projected to rise weakly in both 2010 and 2011, before falling back in 2012. The increased investment is primarily due to the two major developments Skarv and Goliat. An increase is also expected in the number of small fields that are to be linked up to existing infrastructure. They will be developed as capacity becomes available at nearby production facilities.

In the last *Economic Survey*, we assumed that the Skanled gas pipeline would be developed. It now appears unlikely that this project will be realised. The shelving of the project pushes down our investment projection for 2011. Developments in petroleum investment are important for the activity level of the mainland economy. Uncertainty associated with oil price projections must be regarded as high. The direct impact of the financial crisis on investment is another factor that contributes to uncertainty. The effects of low investment in petroleum activities were analysed in *Economic Survey 1/2009*, page 11.

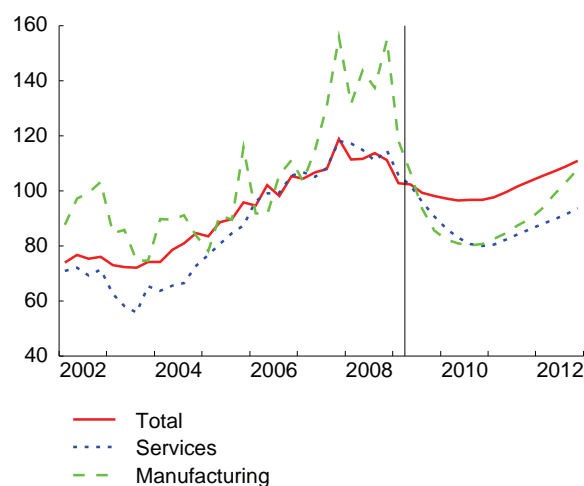
In the first quarter of 2009, petroleum production was higher than expected. The Petroleum Directorate reports that oil production in the first quarter was only 1 per cent lower than in the first quarter of 2008. By contrast, gas production increased by 6.8 per cent in the same period, and is at approximately the same level as oil production, measured as number of standard cubic metres of oil equivalent. Total petroleum production, including condensate and other petroleum products, increased by 2.6 per cent from the first quarter of 2008 to the first quarter of 2009.

Developments in petroleum production have been positive for the past two years. Lower oil production has been more than balanced by higher gas production. However the fall in production was so strong in 2005 and 2006 that overall petroleum production was considerably lower than in the peak year of 2004. The weakly positive production trend is expected to persist until 2010, followed by somewhat falling production in 2011 and 2012.

### Abrupt decline in investment

From 2003 to 2008, mainland business investment increased by just over 75 per cent, which is equivalent to annual growth of more than 12 per cent. However,

Figure 8. **Investment, Mainland Norway. Seasonally adjusted volume indices. 2006=100**



Source: Statistics Norway.

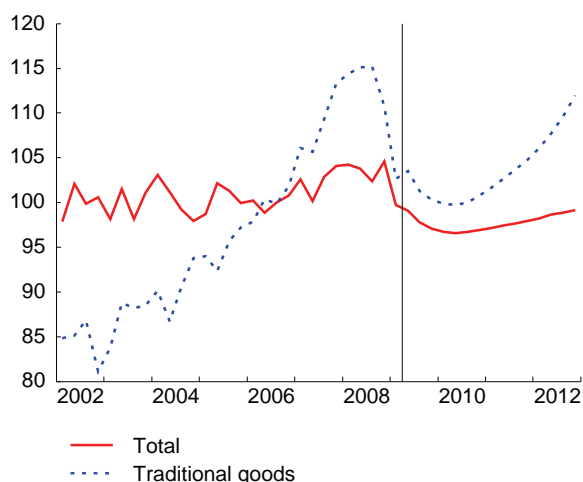
seasonally adjusted QNA figures show that this investment fell through 2008. Investment in the first quarter of 2009 was as much as 9.4 per cent lower than the previous quarter. The sharpest fall was in manufacturing and mining, at almost 24 per cent. Investment in services also dropped sharply whereas investment in other goods production edged up.

Statistics Norway's investment intentions survey points to a continued clear decline in manufacturing investment. The manufacturing industry's own forecasts for investment in 2009 were cut from November 2008 to February this year. The projected value of manufacturing investment in 2009 was 20 per cent lower than the projection for 2008 made at the same time last year. Enterprises normally revise their forecasts upwards through the year, but these upward revisions are normally smaller at the start of a contraction. However, a clear increase in investment appears likely in the electricity supply sector.

We assume that manufacturing enterprises will cut their investment plans back further, and that manufacturing investment will tumble by over 28 per cent this year and over 17 per cent in 2010. This implies that manufacturing investment in 2010 will be somewhat lower than in 2004. An improved economic situation and normalised credit market are expected to contribute to a renewed rise in manufacturing investment in 2011 and 2012, first by just under 7 per cent in 2011 and then by almost 17 per cent in 2012.

For mainland industry as a whole, we project an investment fall of just over 17 per cent this year, and a further reduction of just under 13 per cent in 2010. The decline in investment in relation to 2008 is equivalent to 2 per cent of mainland GDP, which indicates that it is an important factor in the contraction. Investment in mainland industries is also expected to begin to grow again during the recovery in 2011.

Figure 9. Exports. Seasonally adjusted volume indices. 2006=100



Source: Statistics Norway.

### Sharp fall in exports

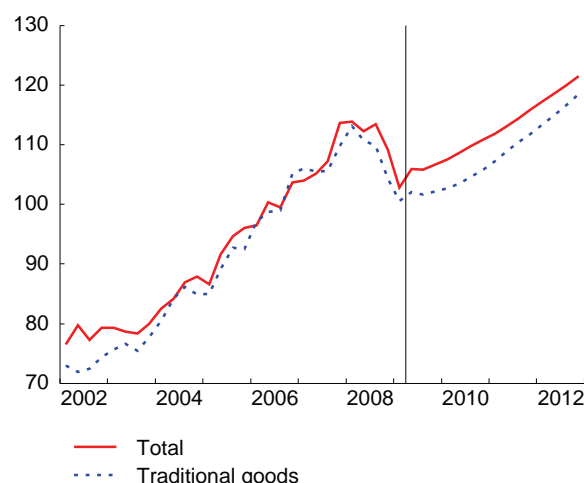
The global recession has led to weak developments in Norwegian exports. Seasonally adjusted QNA figures show that exports of traditional goods were almost 11 per cent lower in the first quarter of this year than in the third quarter of 2008. Total exports fell considerably less during the period because exports of crude oil and natural gas actually increased, while exports of services fell very slightly. Total exports therefore only fell 2.6 per cent in these two quarters.

Industrial commodities such as chemicals and metals made the largest contribution to the slump in exports of traditional goods in the last two quarters. Seasonally adjusted QNA figures show that metal exports were almost one fourth lower in the first quarter than in the same quarter a year earlier. Lower electricity exports also contributed strongly to the reduction. However, exports of engineering products, which constitute a large share of traditional exports, edged up from the third quarter of 2008 to the first quarter of this year.

Prices for traditional exports declined through the two quarters. Despite a weaker krone, prices fell by more than 10 per cent overall. Again, metals and chemicals contributed most to the price fall. An even sharper drop in prices for crude oil and natural gas caused the price index for total exports to fall by over 15 per cent in the same period. The overall fall in export prices was slightly cushioned by a weak rise in prices for exported services.

It is assumed that the strong negative demand impulses from export markets will wane, but that they will persist through the first half of 2010. As a result of weak international demand, exports of traditional goods will fall by a full 10 per cent this year. A fall as steep as this, on an annualised basis, has not been recorded since 1975. However, the fall this year will be somewhat dampened by the fact that the krone exchange rate is

Figure 10. Imports. Seasonally adjusted volume indices. 2006=100



Source: Statistics Norway.

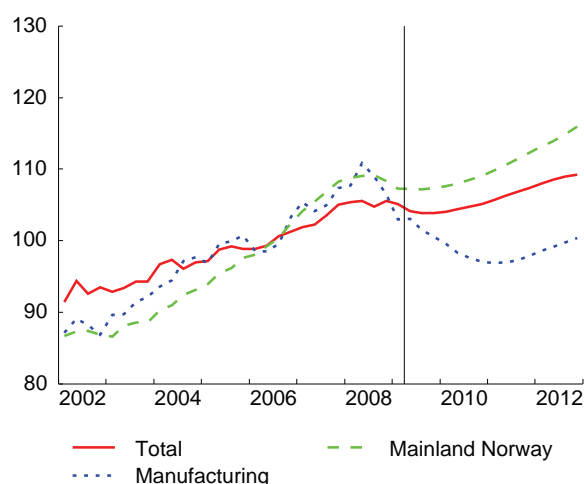
expected to be weaker than last year on average. This factor in isolation boosts cost competitiveness. Weakly positive impulses are expected from export markets through the latter half of 2010. Export market demand will pick up further in 2011. Because of lags in adaptation to new market conditions and a stronger krone exchange rate, exports of traditional goods will fall by a little more than 2 per cent in 2010. The global economic situation will improve further through 2011, helping to push growth in these exports up to over 5 per cent in 2012.

Petroleum exports will continue to fall throughout the projection period, as they have done since 2002. Gas exports are expected to increase, while oil exports will continue to fall. However the decline is expected to be weaker than for exports of traditional goods. Exports of services are expected to decline both this year and next year, but to pick up from 2011. Overall exports will therefore fall less than traditional exports this year and next year. Growth is also expected to be slower for the next few years owing to a continued fall in exports of oil and natural gas.

This year, exports of traditional goods will probably fall somewhat less than demand for our export goods. This implies an increase in market shares for Norwegian exporters. From 2010, Norway will lose market shares, partly as a result of an appreciation of the krone in the period ahead.

### Decline in imports to 2010

Imports have declined as a result of the economic downturn, particularly as a result of less investment and moderate car purchases. Total imports from the third quarter of 2008 to the first quarter of 2009 were reduced by about 10 per cent after adjustment for normal seasonal variations. The decline was broad-based, with a particularly strong reduction in imports of cars, metals, engineering products and travel services.

Figure 11. **Gross domestic product. Seasonally adjusted volume indices. 2006=100**

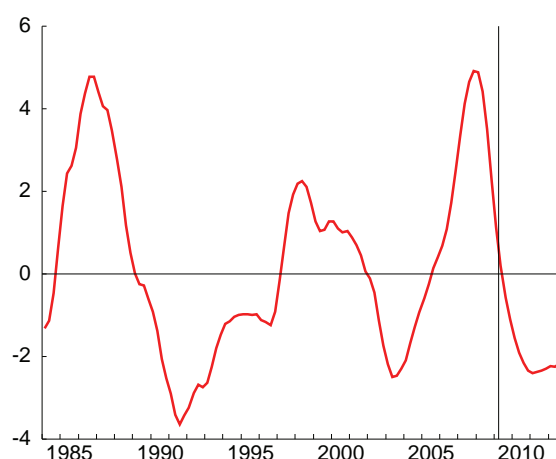
Source: Statistics Norway.

A slide in world market prices for metals, particularly through the second half of 2008, contributed strongly to the 2.3% reduction in prices for traditional goods imports from the third quarter of last year to the first quarter of this year. However, prices for services rose during this period.

The Armed Forces' purchases of helicopters, aircraft and frigates will dominate imports for the next few years. The Armed Forces have ordered 14 new helicopters and 4 new Hercules aircraft for a total of approximately NOK 9.5 billion. The first helicopter is expected to be delivered in the third quarter of 2009, while the aircraft are expected to be imported in the period up to and including 2011. The frigate *KNM Helge Ingstad* will officially be received in autumn 2009, while *KNM Thor Heyerdahl* is to be imported in 2010.

The fall in domestic demand is expected to reduce imports in the current year. In particular lower investment, which generally has a high import content, will be reflected in an approximately 8 per cent reduction in imports of traditional goods in 2009. Imports have not fallen so sharply since 1978. Imports are expected to increase in 2010 and 2011. Increased demand and an expected strengthening of the import-weighted krone exchange rate will cause import growth to increase at a faster pace than growth in the mainland economy.

The international downturn, coupled with a stronger krone, will push down import prices going forward. We project a fall in prices for traditional import goods through the next two years. In 2012, import prices are expected to rally as a result of the anticipated global recovery, and the krone is expected to stop appreciating at the beginning of 2011. Higher cost growth in Norway than among many trading partners points the same way.

Figure 12. **Output gap, Mainland Norway. Deviation from trend, per cent**

Source: Statistics Norway.

### The downturn is easing

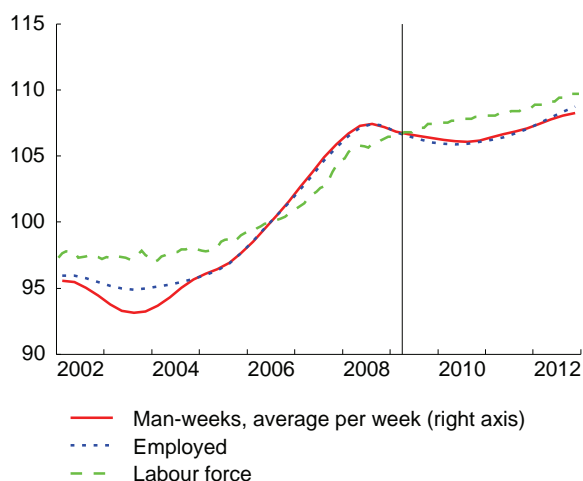
Mainland GDP growth was higher than trend throughout the period spring 2003 – end-2007. There was a distinct change in pace in early 2008, and the Norwegian economy entered a cyclical downturn. This downturn accelerated in the fourth quarter of 2008 and in the first quarter of this year. During these two quarters, mainland GDP fell by almost 2 per cent, and by 2.5 per cent if general government and taxes are excluded (adjustment items).

The fall in output in the last two quarters has been far more pronounced for goods production than for private services. Since the recession is global, and generally more severe abroad than in Norway, it is not surprising that export-oriented industry is showing the clearest decline. Output of industrial commodities stands out, along with the two industries "wood and wood products" and "furniture and other manufacturing", with a drop in value added since last summer of about 30 per cent.

The fall in output through the last half year has been fairly similar to but slightly more pronounced than the average for building and construction, retail trade and commercial services. Together these industries contribute some 45 per cent of value creation in the mainland business sector. At present demand from petroleum activities constitutes a stabilising element in the Norwegian economy. The fall in production in the building of ships and oil platforms and the engineering industry combined has been moderate. The same is true of the domestically oriented food and beverages, publishing and graphics and hotel and restaurant industries. Value added in postal services and telecommunications and financial services has grown through the past half year.

Value added in general government is estimated to have grown by 0.8 per cent over the past half year. Growth in public spending is far higher than this, reflecting

Figure 13. **Labour force, employment and number of man-hours. Seasonally adjusted and smoothed indices. 2006=100**



Source: Statistics Norway.

the fact that there is stronger growth in public sector spending on goods and services than in public sector employment. Thus business sector activity is being stimulated directly, and not only indirectly through public sector employees' spending.

The most recent business tendency survey, which is based on interviews in the first quarter, reveals continued growing pessimism among industrial leaders. An appreciably larger number than previously expect lower production. The number identifying lower demand as a constraint on production continues to grow, while virtually none regard the labour supply as a constraint. The assessments of the various industries are fairly similar, with the exception of the food industry, which is distinctly more optimistic than the others.

We expect demand from the petroleum industry to remain buoyant and that household and public sector demand will also increase. Demand in Norwegian export markets continues to fall, however, while a certain destocking must be expected in this phase of the cyclical downturn. Industrial output will therefore probably continue to fall, perhaps until 2011. Development tendencies through the last quarters are expected to continue, with weak developments in export-oriented industry and in the production of building materials.

Building of both dwellings and commercial buildings is falling, and the decline is expected to continue for a while to come. Despite many new public building projects, we therefore expect a definite fall in production in the building and construction sector this year. However, the decline will be curbed when measures begin to take effect in earnest. In 2011 and 2012, activity in the building and construction branch may rebound.

We expect increased activity in those private service industries that largely supply households, and in particular general government. However, the generally

Figure 14. **Unemployment and number of vacancies. Seasonally adjusted and smoothed. Per cent of labour force**



Source: The Norwegian Labour and Welfare Service and Statistics Norway.

sluggish level of business sector activity results in a reduction in deliveries of material inputs. This is affecting large segments of private sector service industries. On balance, production in private sector services therefore appears set to fall from 2008 to 2009. The turnaround to growth is expected to take place more swiftly in these sectors than in the goods-producing industries, largely because domestic demand will pick up more rapidly than demand in the global market.

Growth in value added in general government is expected to rise through 2009, thereby contributing first to halting the decline in the mainland economy, and then to weak growth in the second half of the year. We estimate that mainland GDP will fall by an annual average of 1.4 per cent in 2009. Growth is expected to gather pace gradually later in the projection period. In 2011, growth is expected to overtake trend, implying a turnaround from a cyclical downturn to an upturn. The Norwegian economy is expected still to be in a downturn in 2012, however, which means that the level of mainland GDP will still be lower than trend.

### Rapid rise in unemployment

According to seasonally adjusted QNA figures, over 320 000 more persons were employed in Norway from the cyclical trough in the second quarter of 2003 to the end of the third quarter of 2008, a total growth of 14 per cent. Never before has such strong unbroken employment growth been recorded over a five-year period. However, in the fourth quarter of 2008 and the first quarter this year, employment fell by 20 000 persons, or 0.8 per cent. Retrenchment in manufacturing accounts for half of this. The decline in building and construction was 5 000 persons, and public sector employment increased by approximately the same number.

Since 2003, employment growth has been paralleled by a strong increase in inward labour migration. However there are signs that this migration has now slowed. As



Table 4. **Labour supply, percentage growth**

	2004	2005	2006	2007	2008	2009	2010	2011	2012
Labour supply LFS <sup>1</sup>	0.3	0.7	2.0	2.5	3.4	0.7	0.7	0.5	0.9
Labour supply NA <sup>2</sup>	0.5	1.3	2.4	3.2	3.2	0.3	0.3	0.6	1.0

<sup>1</sup> Labour supply according to LFS, not including short-term immigrants.

<sup>2</sup> The sum of unemployed according to LFS and employed according to NA, includes short-term immigrants.

Source: Statistics Norway.

at 1 April this year, 98 000 persons had work permits in Norway. While this is 11 000 more than at the same time a year previously, some of those with work permits have probably left Norway. According to Statistics Norway's population statistics, there was 56 per cent higher migratory outflow from Norway in the first quarter of this year than in the first quarter in 2008. The increase in outflow was particularly pronounced among Polish and German nationals, who accounted for 55 per cent of work permits at 1 April this year. In addition to an increase in migration outflow, registered unemployment among male migrants from EU countries in eastern Europe has increased sharply, from 1.9 per cent at the end of February last year to 9.7 per cent at end-February this year. It is likely that the decline in employment in building and construction and manufacturing has hit labour migrants. Forty per cent of work permits are associated with these sectors.

Overall, the seasonally adjusted number registered as fully unemployed has increased by around 5 000 every month since the end of October 2008. At the end of April this year, unemployment registered by the Labour and Welfare Administration was 2.8 per cent. As a rule, unemployment according to Labour Force Survey (LFS) figures is higher than the number registered as fully unemployed, as some of those seeking employment have not registered with the Labour and Welfare Administration. In the first quarter, seasonally adjusted LFS unemployment was 3.1 per cent, compared with 2.4 per cent in the third quarter of last year. The increase is equivalent to 18 000 more unemployed. The increase in unemployment has taken place purely among men; unemployment among women was the same in the first quarter of this year as in the first quarter of 2008. The labour force participation rate for men has also fallen, but has been stable for women. Young men and old men, in particular, have left the labour force. The labour force participation rate among men aged 55-59 fell from 85.6 per cent in the first quarter of 2008 to 82.6 per cent in the first quarter of this year. The rate among men aged 15-19 fell by over 7 percentage points in the period. There were only minor changes in the other groups.

So far the cyclical downturn has affected male-dominated industries such as the export industry and building and construction. The expansionary fiscal policy stimulates employment in many industries dominated by women, such as health, social care and education. Our forecasts indicate that this two-track trend will continue. According to our forecasts, the number of employees in manufacturing will be reduced by over

40 000 by 2011. Employment in building and construction will be reduced by 20 000. Employment in private sector services will remain approximately unchanged during the period, while public sector employment is projected to increase by almost 50 000. On balance, we envisage an annualised average decline in employment in 2009 of 22 000 and a further 13 000 or just over in 2010. These figures are equivalent to 0.8 per cent and 0.5 per cent, respectively. Following a weak increase in employment from 2010 to 2011, we estimate employment growth in 2012 at 1.5 per cent.

The definition of labour supply has been changed in the table on pages 2, which has also had consequences for the calculation of the labour force participation rate. The labour supply has previously been defined in Statistics Norway's tables as the sum of the number of LFS unemployed and the number employed according to the national accounts. Now the LFS definition is used. Apart from statistical differences between the national accounts and LFS, the main difference is in connection with short-term inward migration, which is included in the national accounts but not in LFS. Short-term migrants are those planning to remain in Norway for less than six months. In the past, the difference between the two concepts was not very large, but it has grown larger because of the pronounced increase in short-term inward migration in recent years. The change does not mean that short-term inward migration should be excluded when determining the real labour supply. In Table 2.4, we therefore present labour supply growth projections as defined in LFS and the results obtained using employment figures from the national accounts.

A decline in short-term inflows is expected in 2009 and 2010. There will probably be growth in the supply of short-term labour migrants nonetheless, because the composition of the Norwegian population is changing, so that there are relatively more persons in age groups with a traditionally high labour force participation rate. The share of the immigrant population that is defined as resident, i.e. those who are in Norway for over six months, is also continuing to grow. In isolation, the increased unemployment pushes down labour force participation rates.

Given growth in the labour supply in the period ahead and reduced employment, unemployment will continue to increase. Unemployment is projected to rise steadily from an annual average of 2.6 per cent LFS unemployment in 2008 to an annual average of 4.6 per cent in 2011. We expect unemployment to peak at just under 5

per cent, or approximately 130 000 in 2011, and to fall back through the latter part of 2011 and through 2012.

### Wage growth will reflect an export industry under pressure

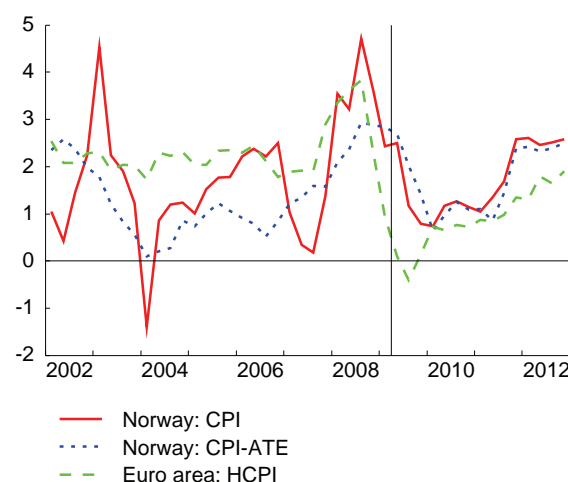
At last year's main wage settlement, agreement was reached on substantial negotiated pay increases, particularly in the public sector. Wage drift, which is wage growth not governed by negotiated settlements, also made a definite contribution to the high wage growth in 2008. Nevertheless, wage drift through the second half of 2008 was probably restrained by the global financial crisis, reduced use of overtime and lower bonus payments. Overall, wages per normal man-year rose by 5.8 per cent from 2007 to 2008, compared with 5.6 per cent the previous year.

The severe economic downturn has exerted pressure on the profitability of the Norwegian business sector. Thus in 2008 the ten-year trend of steadily higher profitability was broken. The higher profitability was primarily attributable to China's growing trade with other countries, which led to substantial terms of trade gains for Norway due to a low rise in import prices and a high rise in export prices. Productivity growth was also high during this period. In 2008, global market prices for many important Norwegian exports fell markedly, and foreign demand dwindled. Workforce cutbacks do not take place as rapidly as the decline in production during circumstances such as these. The result is idle capacity in the business sector in the current phase of the economic cycle. This idle capacity also takes the form of lower productivity growth, and this has further weakened business sector profitability. This diminished profitability in export-oriented industry, coupled with rapidly increasing unemployment, will dampen wage growth further going forward.

The pay increases at this year's interim wage settlement were small, and at several of the central settlements it was agreed that the increases can be negotiated away locally. The wage growth of groups that only negotiate locally will probably also be reduced this year, and we expect use of overtime and bonus payments to be further reduced through 2009. Average wage growth per normal man-year is estimated at 3.8 per cent this year, with carry-over and wage increase agreed last year accounting for about 2½ per cent.

It takes time before the wage level is adjusted after such major changes in the international framework conditions for manufacturing and in the Norwegian labour market. The result is far wider fluctuations in corporate profitability than in employees' real wages. As a result, wage growth will probably remain low in 2010 and 2011, even if there is a global economic recovery and the labour market stabilises at the end of this period. Reduced consumer price inflation contributes further to dampening wage growth. Consumer price inflation in 2008 was 3.8 per cent. This year and next year we

Figure 15. Consumer price indices. Percentage growth from the same quarter previous year



Source: Norges Bank and Statistics Norway.

expect inflation in Norway to fall by 1.7 per cent and 1.1 per cent, respectively.

Wage growth in 2010 and 2011 is projected at 3.5 per cent. The projections are based on the assumption that low wage growth in an export industry under pressure will continue to set the trend for wage growth in the less troubled private service industries and in the public sector – which is set to increase employment in the years ahead. The combination of the deepest global recession since World War II and a highly expansionary fiscal and monetary policy in Norway may exert pressure on income policy and the coordination of wage settlements in the years ahead.

Since the global economic situation is expected to gradually improve through late 2010 and 2011, and segments of the labour market will grow somewhat tighter towards the end of the forecast period, we expect higher wage growth in 2012. Higher consumer price inflation will also contribute to pushing wage growth up, to 4.7 per cent in 2012.

### Low inflation ahead

Underlying inflation has fallen somewhat through the last half year. The 12-month rise in the consumer price index, adjusted for tax changes and excluding energy products (CPI-ATE), reached 3.3 per cent in October, whereas the figure in April was 2.7 per cent. However, it is the overall consumer price index (CPI) that provides an indication of household purchasing power. The year-on-year rise in the CPI also peaked in October last year, at as much as 5.5 per cent. The decline in electricity prices then augmented the underlying tendency for a fall in prices, and in December 2008 the CPI was only 2.1 per cent higher than in December the previous year. The fall in electricity prices from January to April this year was less than in the same period last year. This contributed to a CPI rise to 2.9 per cent in April.

A breakdown of the CPI-ATE by supply sector shows that in recent months inflationary impulses have been lower on a 12-month basis for all main groups with the exception of imported consumer goods. The price rise for imported consumer goods increased by 2 percentage points from December last year, pushing up CPI-ATE inflation by about 0.6 percentage point. Prices for imported consumer goods are affected by global market prices and the exchange rate, but also by the mark-ups of retailers and wholesalers and by Norwegian taxes. The import-weighted value of the krone fell by 19 per cent through the second half of 2008. Just under half of the depreciation was reversed in the period between the end of the year and 20 May this year. The exchange rate influences consumer prices with a time lag. It is therefore probable that the rise in prices for imported consumer goods is related to the depreciation of the krone last autumn. In view of the severe global economic contraction, there is reason to believe that price impulses from abroad are negative. A continued increase in imports from China has the same effect.

The slowing of inflation in the past half year may to some degree be traced back to a reversal of the factors that previously drove it up. International market prices for commodities, including energy, have dropped sharply in the wake of the deepened global downturn. The Norwegian economic slowdown may also have contributed, through factors such as narrower retail trade margins and a lower rise in labour costs than previously. In the period ahead we expect these effects to be amplified, and that productivity growth will also pick up.

We assume that the weakening of the krone last autumn will exert upward pressure on inflation for another few months. In view of the appreciation of the krone that has already occurred this year, and our expectations of further appreciation, this tendency will shortly be reversed. We therefore expect a clear slowing in inflation in the second half of 2009 and into next year. We expect the CPI-ATE as an annualised average to rise by 2.2 per cent this year and 1.0 per cent next year. As the economic situation improves and wage growth gathers pace, and given that the krone is no longer appreciating, core inflation will increase and reach 2.4 per cent in 2012.

Electricity prices are expected to continue falling for another couple of months – approximately like last year – and then to rebound. However, forward prices in the electricity market indicate that the increase in the second half of the year will be substantially weaker than in the same period in 2008. Electricity prices will therefore exert downward pressure on the 12-month rise in the CPI. Oil prices moved in the opposite direction from electricity prices last year, however. This will contribute to moderating the downward drift of CPI inflation. We assume that the annualised average electricity price will not change substantially from 2008 to 2009, and that the price rise thereafter will be very moderate. The

average oil price measured in NOK is expected to be reduced by one third from 2008 to 2009, and then rise by around 10 per cent annually. As usual, we assume that this tax programme will not be changed in 2009, and that indirect taxation rates will be adjusted for inflation in the remainder of the projection period. CPI inflation is therefore projected to be 1.7 per cent in 2009, and then to remain 0.1-0.2 percentage point higher than the rise in the CPI-ATE.

### **Lower trade surplus**

On the back of the prolonged international boom, Norway's current account surplus showed trend growth from 2002. The surplus peaked in 2008 at close to NOK 500 billion, and the trend now appears to have been broken. The financial crisis and economic downturn resulted in weak developments after summer 2008. The preliminary national accounts figures for the first quarter of the current year show a trade surplus of just over NOK 100 billion, which is 10-20 per cent less than the surpluses for each quarter of 2008. The decline is due to strongly reduced export prices, particularly for oil and gas.

We expect the tendency from the last two quarters to continue. The global downturn will sharply reduce the trade surplus this year, and to some extent next year. The contraction means reduced demand for Norwegian export products, but also reduced domestic demand and accordingly lower imports. Prices for Norwegian export products are expected to fall more than prices for imported products. As a result of a greater reduction in the overall value of exports than of imports, the trade surplus will fall to approaching NOK 300 billion in 2009, and further to approaching NOK 270 billion in 2010.

We assume a moderate global recovery in 2011 and 2012. The upturn is expected to reverse the negative trade surplus developments of the previous two years. The volume of oil and gas exports has fallen each year since 2002, albeit to a moderate extent. This tendency will continue, but oil prices are projected to rise more, thereby raising the export value of oil and gas. Both volumes and prices of export goods are increasing, and more so than corresponding increases for imports. This could bring the trade surplus up to approaching NOK 300 billion in 2011 and almost NOK 320 billion in 2012. Net interest and transfers are also expected to increase during the projection period, changing from negative to positive in 2010. The current account surplus will then rise from less than NOK 300 billion in 2009 to just under NOK 340 billion in 2012. The surpluses account for 11-12 per cent of projected GDP for these years.

Table 5. **National accounts: Final expenditure and gross domestic product. At constant 2006 prices. Million kroner**

	Unadjusted		Seasonally adjusted							
	2007	2008	07.2	07.3	07.4	08.1	08.2	08.3	08.4	09.1
Final consumption expenditure of households and NPISHs	934 732	947 510	232 325	234 732	238 426	239 221	237 929	235 658	234 360	233 913
Household final consumption expenditure	898 292	909 843	223 202	225 571	229 224	229 931	228 466	226 238	224 894	224 400
Goods	472 644	471 758	117 190	118 931	120 470	119 655	119 096	116 886	115 469	114 527
Services	393 166	400 380	97 917	98 887	99 810	99 722	100 098	100 164	100 488	101 258
Direct purchases abroad by resident households	57 847	62 527	14 313	14 090	15 462	16 960	15 595	15 195	15 052	14 049
Direct purchases by non-residents	-25 365	-24 821	-6 218	-6 337	-6 517	-6 407	-6 323	-6 007	-6 116	-5 435
Final consumption expenditure of NPISHs	36 440	37 666	9 123	9 161	9 202	9 291	9 462	9 420	9 466	9 513
Final consumption expenditure of general government	427 109	443 390	106 188	107 737	108 292	109 092	110 098	111 431	112 748	114 532
Final consumption expenditure of central government	220 794	227 408	54 993	55 440	55 640	55 976	56 534	57 131	57 765	58 492
Central government, civilian	190 923	196 481	47 554	47 967	48 115	48 357	48 874	49 436	49 811	50 537
Central government, defence	29 870	30 927	7 439	7 474	7 525	7 619	7 660	7 695	7 953	7 955
Final consumption expenditure of local government	206 316	215 982	51 195	52 297	52 652	53 116	53 564	54 299	54 983	56 040
Gross fixed capital formation	459 610	477 576	112 201	117 528	121 398	118 555	118 034	120 423	120 292	112 028
Extraction and transport via pipelines	100 726	107 417	24 987	26 334	26 007	26 441	25 868	26 873	28 204	28 767
Service activities incidental to extraction	938	-39	540	233	45	90	58	-120	-67	-104
Ocean transport	20 767	24 860	4 482	7 734	3 818	6 276	6 043	6 138	6 422	4 238
Mainland Norway	337 180	345 338	82 191	83 227	91 528	85 748	86 065	87 532	85 733	79 128
Mainland Norway excluding general government	270 862	275 160	66 278	68 172	71 299	69 834	69 696	67 720	67 643	62 677
Industries	175 663	187 656	42 190	44 337	47 866	47 055	47 515	45 887	47 008	42 584
Manufacturing and mining	30 584	34 225	6 974	7 922	9 432	7 979	8 703	8 323	9 382	7 151
Production of other goods	29 198	32 112	7 457	7 799	7 223	8 114	8 421	8 238	7 327	7 440
Services	115 881	121 318	27 760	28 616	31 210	30 963	30 392	29 326	30 299	27 993
Dwellings (households)	95 199	87 505	24 088	23 834	23 433	22 779	22 181	21 833	20 635	20 093
General government	66 318	70 178	15 913	15 055	20 229	15 913	16 369	19 813	18 090	16 451
Changes in stocks and statistical discrepancies	36 585	51 748	11 087	4 690	11 530	14 827	15 127	14 586	7 063	13 977
Gross capital formation	496 196	529 324	123 288	122 217	132 928	133 381	133 161	135 009	127 355	126 006
Final domestic use of goods and services	1 858 038	1 920 224	461 800	464 687	479 646	481 695	481 188	482 098	474 463	474 451
Final demand from Mainland Norway	1 699 022	1 736 238	420 704	425 696	438 246	434 061	434 092	434 621	432 840	427 574
Final demand from general government	493 427	513 568	122 101	122 792	128 521	125 005	126 467	131 243	130 838	130 983
Total exports	1 027 757	1 041 971	251 083	258 039	260 976	261 393	260 220	256 663	262 349	250 008
Traditional goods	295 052	309 197	71 717	74 192	76 889	77 632	78 098	78 163	75 139	69 660
Crude oil and natural gas	485 321	477 994	117 821	122 519	119 416	121 398	119 216	114 399	122 183	117 760
Ships, oil platforms and planes	11 920	13 385	3 801	3 286	2 372	2 363	3 172	4 396	3 455	3 605
Services	235 465	241 395	57 744	58 042	62 299	60 000	59 734	59 705	61 572	58 983
Total use of goods and services	2 885 795	2 962 194	712 884	722 726	740 623	743 088	741 408	738 761	736 811	724 459
Total imports	658 538	687 451	160 975	164 147	173 967	174 239	171 890	173 686	167 127	157 330
Traditional goods	434 511	446 054	107 300	107 436	111 759	115 076	112 680	111 748	106 169	102 362
Crude oil and natural gas	5 397	3 235	2 103	782	1 578	588	698	677	1 274	559
Ships, oil platforms and planes	19 847	29 757	3 308	5 974	7 739	6 683	7 041	9 454	6 580	4 143
Services	198 784	208 404	48 264	49 955	52 891	51 892	51 471	51 807	53 104	50 266
Gross domestic product (market prices)	2 227 256	2 274 744	551 909	558 579	566 656	568 849	569 517	565 075	569 685	567 129
Gross domestic product Mainland Norway (market prices)	1 676 943	1 719 891	416 267	421 801	427 345	429 400	430 657	430 910	427 609	423 422
Petroleum activities and ocean transport	550 313	554 853	135 642	136 778	139 311	139 449	138 860	134 164	142 076	143 707
Mainland Norway (basic prices)	1 421 656	1 465 989	353 278	357 390	362 756	365 104	365 912	368 140	366 059	361 987
Mainland Norway excluding general government	1 117 656	1 151 699	277 443	280 930	285 921	287 064	288 215	289 134	286 702	282 353
Manufacturing and mining	206 270	212 223	50 898	51 293	52 506	52 656	54 176	53 280	52 037	50 363
Production of other goods	174 376	178 040	43 605	44 292	43 924	44 266	44 498	45 103	44 196	43 153
Services incl. dwellings (households)	737 010	761 436	182 941	185 346	189 491	190 143	189 541	190 751	190 468	188 838
General government	304 000	314 290	75 835	76 460	76 835	78 040	77 696	79 006	79 357	79 634
Taxes and subsidies products	255 287	253 902	62 989	64 411	64 589	64 296	64 746	62 771	61 550	61 435

Source: Statistics Norway.

Table 6. **National accounts: Final expenditure and gross domestic product. At constant 2006 prices. Percentage change from the previous period**

	Unadjusted		Seasonally adjusted							
	2007	2008	07.2	07.3	07.4	08.1	08.2	08.3	08.4	09.1
Final consumption expenditure of households and NPISHs	6.0	1.4	0.9	1.0	1.6	0.3	-0.5	-1.0	-0.6	-0.2
Household final consumption expenditure	6.1	1.3	0.8	1.1	1.6	0.3	-0.6	-1.0	-0.6	-0.2
Goods	7.6	-0.2	0.3	1.5	1.3	-0.7	-0.5	-1.9	-1.2	-0.8
Services	4.0	1.8	1.5	1.0	0.9	-0.1	0.4	0.1	0.3	0.8
Direct purchases abroad by resident households	7.8	8.1	-0.7	-1.6	9.7	9.7	-8.0	-2.6	-0.9	-6.7
Direct purchases by non-residents	4.8	-2.1	-0.9	1.9	2.9	-1.7	-1.3	-5.0	1.8	-11.1
Final consumption expenditure of NPISHs	4.1	3.4	1.5	0.4	0.4	1.0	1.8	-0.4	0.5	0.5
Final consumption expenditure of general government	3.4	3.8	1.3	1.5	0.5	0.7	0.9	1.2	1.2	1.6
Final consumption expenditure of central government	2.0	3.0	0.5	0.8	0.4	0.6	1.0	1.1	1.1	1.3
Central government, civilian	1.7	2.9	0.6	0.9	0.3	0.5	1.1	1.1	0.8	1.5
Central government, defence	3.7	3.5	0.1	0.5	0.7	1.3	0.5	0.5	3.4	0.0
Final consumption expenditure of local government	5.0	4.7	2.1	2.2	0.7	0.9	0.8	1.4	1.3	1.9
Gross fixed capital formation	8.4	3.9	3.3	4.7	3.3	-2.3	-0.4	2.0	-0.1	-6.9
Extraction and transport via pipelines	5.5	6.6	7.4	5.4	-1.2	1.7	-2.2	3.9	5.0	2.0
Service activities incidental to extraction	-71.7	-104.2	353.0	-56.9	-80.5	97.4	-35.4	-307.2	-44.2	55.5
Ocean transport	22.4	19.7	-4.9	72.6	-50.6	64.4	-3.7	1.6	4.6	-34.0
Mainland Norway	9.3	2.4	2.1	1.3	10.0	-6.3	0.4	1.7	-2.1	-7.7
Mainland Norway excluding general government	9.7	1.6	1.5	2.9	4.6	-2.1	-0.2	-2.8	-0.1	-7.3
Industries	12.2	6.8	2.5	5.1	8.0	-1.7	1.0	-3.4	2.4	-9.4
Manufacturing and mining	25.3	11.9	11.2	13.6	19.1	-15.4	9.1	-4.4	12.7	-23.8
Production of other goods	10.3	10.0	11.6	4.6	-7.4	12.3	3.8	-2.2	-11.1	1.5
Services	9.7	4.7	-1.6	3.1	9.1	-0.8	-1.8	-3.5	3.3	-7.6
Dwellings (households)	5.3	-8.1	0.0	-1.1	-1.7	-2.8	-2.6	-1.6	-5.5	-2.6
General government	7.9	5.8	4.7	-5.4	34.4	-21.3	2.9	21.0	-8.7	-9.1
Changes in stocks and statistical discrepancies	-28.2	41.4	43.4	-57.7	145.9	28.6	2.0	-3.6	-51.6	97.9
Gross capital formation	4.4	6.7	6.0	-0.9	8.8	0.3	-0.2	1.4	-5.7	-1.1
Final domestic use of goods and services	5.0	3.3	2.3	0.6	3.2	0.4	-0.1	0.2	-1.6	0.0
Final demand from Mainland Norway	6.0	2.2	1.2	1.2	2.9	-1.0	0.0	0.1	-0.4	-1.2
Final demand from general government	4.0	4.1	1.7	0.6	4.7	-2.7	1.2	3.8	-0.3	0.1
Total exports	2.5	1.4	-2.4	2.8	1.1	0.2	-0.4	-1.4	2.2	-4.7
Traditional goods	8.7	4.8	-0.4	3.5	3.6	1.0	0.6	0.1	-3.9	-7.3
Crude oil and natural gas	-2.6	-1.5	-6.3	4.0	-2.5	1.7	-1.8	-4.0	6.8	-3.6
Ships, oil platforms and planes	-5.9	12.3	54.5	-13.6	-27.8	-0.4	34.2	38.6	-21.4	4.3
Services	7.0	2.5	1.1	0.5	7.3	-3.7	-0.4	0.0	3.1	-4.2
Total use of goods and services	4.1	2.6	0.6	1.4	2.5	0.3	-0.2	-0.4	-0.3	-1.7
Total imports	7.5	4.4	1.2	2.0	6.0	0.2	-1.3	1.0	-3.8	-5.9
Traditional goods	6.7	2.7	-0.5	0.1	4.0	3.0	-2.1	-0.8	-5.0	-3.6
Crude oil and natural gas	145.3	-40.1	122.8	-62.8	101.7	-62.8	18.8	-3.1	88.3	-56.2
Ships, oil platforms and planes	34.4	49.9	17.0	80.6	29.6	-13.7	5.4	34.3	-30.4	-37.0
Services	5.4	4.8	1.6	3.5	5.9	-1.9	-0.8	0.7	2.5	-5.3
Gross domestic product (market prices)	3.1	2.1	0.4	1.2	1.4	0.4	0.1	-0.8	0.8	-0.4
Gross domestic product Mainland Norway (market prices)	6.1	2.6	1.3	1.3	1.3	0.5	0.3	0.1	-0.8	-1.0
Petroleum activities and ocean transport	-4.9	0.8	-2.1	0.8	1.9	0.1	-0.4	-3.4	5.9	1.1
Mainland Norway (basic prices)	5.9	3.1	1.6	1.2	1.5	0.6	0.2	0.6	-0.6	-1.1
Mainland Norway excluding general government	6.7	3.0	1.7	1.3	1.8	0.4	0.4	0.3	-0.8	-1.5
Manufacturing and mining	5.4	2.9	-1.3	0.8	2.4	0.3	2.9	-1.7	-2.3	-3.2
Production of other goods	7.2	2.1	1.8	1.6	-0.8	0.8	0.5	1.4	-2.0	-2.4
Services incl. dwellings (households)	6.9	3.3	2.5	1.3	2.2	0.3	-0.3	0.6	-0.1	-0.9
General government	3.2	3.4	1.3	0.8	0.5	1.6	-0.4	1.7	0.4	0.3
Taxes and subsidies products	7.1	-0.5	-0.5	2.3	0.3	-0.5	0.7	-3.1	-1.9	-0.2

Source: Statistics Norway.



Table 7. **National accounts: Final expenditure and gross domestic product. Price indices. 2006=100**

	Unadjusted		Seasonally adjusted							
	2007	2008	07.2	07.3	07.4	08.1	08.2	08.3	08.4	09.1
Final consumption expenditure of households and NPISHs	100.7	104.6	100.4	100.4	101.5	103.1	103.6	105.2	106.3	106.6
Final consumption expenditure of general government	104.7	110.6	104.3	104.9	106.2	108.0	109.6	111.7	112.8	114.1
Gross fixed capital formation	105.4	110.8	105.7	106.1	106.3	108.0	110.4	112.0	112.8	114.0
Mainland Norway	105.1	110.0	104.9	105.3	106.5	107.9	109.6	110.6	111.7	112.7
Final domestic use of goods and services	103.0	107.0	102.0	103.2	102.8	106.9	105.4	108.1	108.2	111.4
Final demand from Mainland Norway	102.6	107.2	102.2	102.5	103.7	105.3	106.3	108.0	109.1	109.7
Total exports	101.4	117.6	101.3	99.4	109.0	112.2	122.5	122.2	113.0	101.9
Traditional goods	102.5	104.9	104.7	100.6	101.9	100.3	103.3	110.3	105.2	98.5
Total use of goods and services	102.4	110.8	101.7	101.8	105.0	108.7	111.4	113.0	109.9	108.1
Total imports	103.1	106.6	104.7	103.0	101.6	104.2	105.4	108.2	108.5	107.8
Traditional goods	103.7	107.1	105.5	103.5	102.1	104.8	106.6	109.1	107.7	106.6
Gross domestic product (market prices)	102.2	112.0	100.9	101.5	106.0	110.1	113.2	114.5	110.4	108.2
Gross domestic product Mainland Norway (market prices)	102.8	106.4	102.2	102.7	103.8	104.7	105.4	107.5	107.4	108.7

Source: Statistics Norway.

Table 8. **National accounts: Final expenditure and gross domestic product. Price indices. Percentage change from previous period**

	Unadjusted		Seasonally adjusted							
	2007	2008	07.2	07.3	07.4	08.1	08.2	08.3	08.4	09.1
Final consumption expenditure of households and NPISHs	0.7	3.9	0.1	0.0	1.1	1.6	0.5	1.5	1.1	0.3
Final consumption expenditure of general government	4.7	5.6	0.9	0.5	1.3	1.7	1.4	2.0	1.0	1.1
Gross fixed capital formation	5.4	5.1	2.2	0.4	0.2	1.6	2.2	1.4	0.7	1.1
Mainland Norway	5.1	4.7	1.6	0.4	1.1	1.3	1.6	0.9	1.0	0.9
Final domestic use of goods and services	3.0	3.9	-0.5	1.2	-0.4	4.0	-1.4	2.6	0.1	2.9
Final demand from Mainland Norway	2.6	4.5	0.6	0.3	1.2	1.5	1.0	1.6	1.0	0.6
Total exports	1.4	16.0	5.3	-1.9	9.6	3.0	9.2	-0.2	-7.5	-9.8
Traditional goods	2.5	2.3	1.8	-3.9	1.3	-1.6	3.0	6.8	-4.6	-6.4
Total use of goods and services	2.4	8.1	1.5	0.1	3.1	3.6	2.4	1.5	-2.7	-1.7
Total imports	3.1	3.4	1.2	-1.6	-1.4	2.6	1.2	2.6	0.2	-0.6
Traditional goods	3.7	3.2	1.6	-1.9	-1.3	2.5	1.8	2.3	-1.3	-1.0
Gross domestic product (market prices)	2.2	9.6	1.6	0.6	4.4	3.9	2.7	1.2	-3.6	-2.0
Gross domestic product Mainland Norway (market prices)	2.8	3.5	0.8	0.5	1.1	0.8	0.7	2.0	-0.1	1.2

Source: Statistics Norway.